

Committee:	Date:
Risk Committee of the Barbican Centre Board	20 January 2016
Subject: Internal Audit Update Report	Public
Report of: Head of Internal Audit and Risk Management	For Information

Summary

This report provides an update on the internal audit reviews undertaken between November 2015 and January 2016, as well as a status update in respect of the schedule of planned work for 2015-16 (Appendix 1).

Since the Committee update report in October 2015 two audits have been progressed to completion: Budget-Setting and Financial Management, and Barbican Internal Enterprises, terms of reference have been finalised for three audits: Box Office Income (Pricing), Bars, and Membership Schemes, and a System Controls Audit (Artifax) is in progress. Delivery of the 2015-16 audit plan is progressing to target and it is anticipated that all reviews will be completed by 31 March 2016.

Two final reports issued in December 2015 contained substantial (green) assurance ratings. The review of Budget-Setting and Financial Management resulted in two amber and two green recommendations, all but one of which were agreed for implementation by Barbican management. One amber priority recommendation relating to the full costing of activities created by the Art Forms was agreed in principle but is not anticipated to be implemented in full due to resource constraints.

Two amber priority and six green priority recommendations arose as part of the review of Barbican International Enterprises. Barbican management have agreed all but one amber priority recommendation.

As at the end of December 2015 there are no live high (red and amber) priority recommendations apart from those arising from the two recently finalised reviews.

This report also includes the Draft Internal Audit Plan 2016-19 for comment and suggestions for any changes or additions to the proposed plan. (Appendix 2)

Recommendation(s)

Members are asked to note the delivery position for the 2015-16 Internal Audit Plan, the outcome of reviews completed to date, the proposed areas of coverage for forthcoming reviews, and to consider the draft Internal Audit Plan 2016-19.

Main Report

Background

1. This report provides an update on audit work progressed since the update to this Committee in October 2015 and includes a summary of the status of all 2015-16 reviews (Appendix 1). The draft Internal Audit Plan for 2016-2019 is attached for consideration and comment (Appendix 2).

Delivery of Internal Audit Work

2. An analysis of the status and outcome of reviews within the 2015-16 audit plan is attached at Appendix 1. Two audit reviews – outlined below – have been finalised, one review is in progress and the scope and timing of the remaining three reviews have been agreed with management to facilitate full plan delivery by 31 March 2016.

Summary of audit review outcomes – 2015-16 Planned Work

Budget-Setting and Financial Management

4. This finalised review evaluated the adequacy of budget setting arrangements to ensure flexibility at a time of economic uncertainty and to address the commercial, artistic and educational aspects of the Centre's programme. The review also examined budget monitoring and the accuracy, integrity and timeliness of financial performance reporting to enable effective decision-making.
5. The review resulted in a substantial (green) assurance opinion. On the basis of testing performed, the review concluded as follows:
 - A number of mechanisms are in place to ensure that budget setting accords with Barbican priorities.
 - Budget setting incorporates budget holder engagement, ownership and accountability from the outset, facilitating good financial management.
 - Senior management and Member oversight is exercised through the approval of the budget resources for the year and regular review of budget performance.
 - Controls to ensure that budget holders have access to sufficient, relevant, reliable and timely information are generally effective.
 - Arrangements to ensure that variances are identified, investigated, analysed and reported on a timely basis are generally adequate.
 - Reconciliation arrangements were found to be generally adequate, with box office income reconciled daily and transactions from the feeder system ENTA uploaded onto a control account within CBIS on a monthly basis and reconciled accordingly.
 - The scope, frequency and segregation of duties observed in the reconciliation processes are considered appropriate.
6. Budget position statements are reviewed at monthly budget monitoring meetings between Finance and budget holders. Budget holders indicated, however, that budget position statements are not always received on a timely basis to allow scrutiny prior to budget meetings. Whilst the tight deadlines within the monthly budget cycle are acknowledged, a green priority recommendation has been made

to ensure that some flexibility is allowed, enabling appropriate analysis and scrutiny of the figures and improved forecasts. Management have agreed this recommendation for immediate implementation, and it is understood that this is already the aim, but consistent achievement is dependent upon available resources.

7. Monthly budget monitoring meetings, which include discussions regarding variances, are not minuted and an amber priority recommendation has been made to ensure that actions are followed up as appropriate. Management have undertaken to implement this by January 2016.
8. Budget holder feedback indicated that they would benefit from: refresher training, documented guidance, additional information such as full activity levels for areas other than the main art forms and consistently receive reports on a timely basis. It is noted that 'Finance for non-financial staff' training is run but on an infrequent basis. A green priority recommendation has been agreed by management for implementation by the end of March 2016.
9. It is understood that the full cost of activities created by the Art Forms are not apportioned to individual events and as such the net contribution / expense is not known. An amber priority recommendation has been made to inform financial performance monitoring and to facilitate budget management. Management were aware of this issue, having identified this as part of the strategic plan, and some work had been undertaken previously to address this. It is understood that management agree with the recommendation but resources are currently insufficient to enable full implementation; the recommendation is thus categorised as 'not agreed' as there are no firm plans to mitigate the highlighted risk.

Barbican International Enterprises (BIE)

9. This finalised review evaluated the adequacy of the arrangements in place regarding the development and delivery of a programme of touring exhibitions and the financial management provisions to ensure that value for money is achieved. Testing comprised a sample of exhibitions from both types of product (those that started as exhibitions in the Barbican Centre and those that are designed specifically for touring) and an evaluation of compliance with development and monitoring processes.
10. The review resulted in a substantial (green) assurance opinion and overall, satisfactory controls were confirmed to ensure the effective delivery of touring exhibitions. It was noted that despite the market difficulties faced, the overall performance of International Enterprises is positive and presents a financial contribution to the Barbican Centre. Performance monitoring and management information available is sufficient and timely.
11. On the basis of testing performed, the review concluded as follows:
 - Appropriate controls such as research, market testing and partnering agreements - to reduce investment risks - were observed at project identification stage
 - Continuous budget and project monitoring meetings are held at project

development stage and project management schedules are used to ensure that projects are developed on time and are quality controlled.

- Robust contractual agreements with customers and the presence of BIE staff at the opening and closing of exhibitions were also found.
 - Arrangements in place for the recruitment of curators, designers, technicians, and other exhibition team members are generally adequate.
 - Adequate financial controls are in operation to ensure that fluctuations in the market are reflected on a timely basis in the BIE forecasts, and that action is taken promptly in respect of known variances.
 - Good governance was observed in terms of the reporting of financial and activity performance for touring exhibitions to Directors and Members.
12. Testing highlighted that the identification, development and delivery of touring exhibitions' process is not documented and as such it relies on a key officer's knowledge. Management have undertaken to draw up a handbook at the earliest opportunity in response to an amber priority recommendation.
13. No evidence was found in respect of the initial budget approval or reporting of budget performance for the development of major exhibitions, such as Designing 007 James Bond. An amber priority recommendation has been made relating to recording the approval of budgets for development of major exhibitions. Management have since advised that sign-off is, and was, obtained at Director level and as such consider this to be adequate, although acknowledge that it could have been better documented and have therefore not accepted the recommendation.
14. Two green priority recommendations have been made in relation to recruitment and contractual arrangements and management agreed to implement these immediately to ensure that contracts are signed promptly and held securely.
15. Three green priority recommendations have been made to strengthen financial management of touring exhibitions and management agreed to implement two of these immediately. The remaining recommendation in respect of increasing Barbican International Enterprises' profile / presence on the Barbican's website is awaiting approval and management have undertaken to implement this at the earliest opportunity.
16. A green priority recommendation has been made for the risk identified in relation to business carried out in the EU to be upgraded to amber as per the "Risk Matrix" scoring grid, in order to ensure that management actions and monitoring of fluctuating situations are robust enough. Management have agreed to implement this recommendation with immediate effect.

2015-16 Reviews in Progress

System Controls: Artifax

17. Fieldwork has been completed in respect of the system controls review of Artifax, the Venue and Event Management system. The purpose of this review is to obtain assurance that adequate financial control arrangements are in place to restrict access to the Artifax system to authorised personnel through the use of password

controls and system access rights. Circulation of the draft report is imminent and finalisation of the review is anticipated by 29 February 2016.

Box Office Income - Pricing

18. The terms of reference for this review have been finalised and project completion is anticipated by 31 March 2016. The objective of this internal audit review is to establish and evaluate the rationale for setting box office pricing for a sample of art forms. It is proposed that testing for this review be focused on box office pricing in respect of the theatre (to include a sample of commercial rentals), cinema and gallery. Audit testing will examine the process for determining how productions are priced so that audiences will be attracted to purchase tickets, as well as the relationship between the contribution to costs and the scope that the Barbican has for setting prices in a competitive environment.

Bars

19. The terms of reference for this review have been finalised and project completion is anticipated by 31 March 2016. The purpose of this review is to obtain assurance that there are adequate arrangements in place in respect of cash income received by the Barbican's bars, that income is recorded and banked in full and that bar stock is appropriately managed. The audit will also look to ensure that there are adequate reporting arrangements in respect of bar income and stock levels held.

Membership Schemes

20. The terms of reference for this review have been finalised and project completion is anticipated by 31 March 2016. The purpose of this audit is to obtain assurance that there are adequate controls in operation to ensure that membership scheme uptake and benefits to the Barbican are realised in line with business plans. The review will also consider whether sufficient, accurate and timely management information is available to enable performance monitoring / inform decision-making in relation to the Membership Schemes.

Draft Internal Audit Plan 2016-19

21. The Draft Internal Audit Plan for 2016-19 has been prepared using a risk-based approach and in consultation with the Chamberlain and Head of Finance. This one year plan and the strategy for 2016-19 are attached at Appendix 2. Comment and suggestions for consideration in future internal audit plans are sought from your Committee Members.

Implementation of Audit Recommendations

22. There are currently no outstanding red and amber priority recommendations. The amber recommendations arising from the recently finalised reviews referred to above will be followed up in due course and the outcome reported to this Committee.

Conclusion

23. Reviews of Budget-Setting and Financial Management, and Barbican International Enterprises have provided substantial assurance.

24. Delivery of the 2015-16 audit plan is progressing to target. Barbican Centre management have accepted all but two of the recommendations arising from recently finalised reviews and the high (amber) priority recommendations will be followed up in due course. As at the end of December 2015 there are no further live red or amber recommendations awaiting implementation by Barbican management.

Appendices

Appendix 1 Internal Audit Plan Schedule of Projects 2015-16

Appendix 2 Draft Internal Audit Plan 2016-2019

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